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UNCLAS SECTION 01 OF 02 BAGHDAD 003035

SIPDIS

SENSITIVE

STATE FOR NEA/I PASS GRAMAGLIA, SILVERMAN, EB/TRA

TAGS: [FAIR](#) [EAID](#) [ECON](#) [PGOV](#) [IZ](#) [ETRA](#) [POL](#) [MIL](#)
SUBJECT: AIRPORT CONTRACT DISPUTE COULD LEAD TO BIAP
CLOSURE

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REF: A) BAGHDAD 2822, B) BAGHDAD 2804 and previous

1. (SBU) Summary. Despite Embassy consultations with the Iraqi Ministry of Transportation (MOT) and two contractors (Global Risk Strategies (Global) and Raytheon), it appears likely that the Baghdad International Airport (BIAP) will close as a result of the parties' inability to resolve two disputes hindering the operation of the airport. Should Raytheon follow in Global's footsteps and walk away from its project, BIAP will be without a functioning radar system. We do not know when the closure may occur. End summary.

Global Contract Dispute

2. (SBU) A dispute continues between the Ministry of Transportation (MOT) and Global Risk Strategies, a private contractor providing security services at BIAP. Global is claiming \$15.8 million from the ministry for services provided between March 1, 2005 and June 31, 2005. The dispute may again lead to the airport's closure (reftel and previous) if unresolved soon.

3. (SBU) The two parties met again July 17, 2005 to discuss the back payment issue and a new service contract. At the meeting, MOT representatives rejected Global's request for full (\$15.8 million) payment of the arrears. MOT also refused to approve Global's proposed twelve month contract: one beginning July 1, 2005 and backed by an irrevocable letter of credit (L/C) for six months at a cost of about \$3.6 million/month.

4. (SBU) In previous discussions, MOT representatives had indicated their willingness to pay up to \$7.5 million of the arrears and had proposed a three-month contract from the beginning of July 1 through the end of September 2005. In discussions with the Embassy, Global informed us of its intention to submit a counteroffer to the MOT by July 19. In it, Global proposed to accept \$14.7 million as back payment and a new twelve-month contract at \$3.7 million a month including the irrevocable L/C requirement.

5. (SBU) Our discussions with MOT Deputy Minister Atta Nabeil indicate that MOT will reject Global's new proposal (reftels). In June 2005, Global walked off the job for two days because of this unresolved dispute, during which civilian operations ceased at BIAP. (Comment. We believe it probable that Global and MOT will not resolve this issue. In that event, Global will halt its operations at BIAP thus causing a shutdown. End comment.)

Raytheon Contract Dispute

6. (SBU) Raytheon's Vice-President for International business development met with the deputy minister of transportation July 19. Raytheon has a contract with the Ministry of Transportation (MOT) for \$27.5 million to build and install a radar system and navigational aid equipment at BIAP. Raytheon's project expenditures have exceeded the contract amount by \$5.8 million, however. Although the contract had a "cost-plus" provision allowing for cost overruns, certain notifications were to have been made by Raytheon as it spent the original \$27.5 million. Raytheon did not do this to MoT's satisfaction; consequently, MoT has not approved the invoices for the overruns and contests that MoT is not responsible for the additional costs. This contract, which originated with the CPA, was signed over to the MoT and has been under its management and direction ever since.

7. (SBU) Raytheon has proposed scaling back the radar project as a means to reduce the cost overruns under \$3 million. If these were below \$3 million, the contract would not require the Iraqi Cabinet's approval. Raytheon is looking for the MoT to pay that amount and for the U.S.

Government to pick up the balance either on another contract or an outright payment. (The U.S. Government will not pay overruns since this is a contract between the MoT and Raytheon.) The MOT has rejected this proposal.

18. (SBU) Raytheon is threatening to leave the project unfinished (and the radar system inoperable) if it isn't given a commitment by MoT to pay the overage charges. Raytheon has refused to make any concession. (The company has offered to install a similar system at the Basra Airport, and its offer is being considered. The U.S. Government will pay for the work. But the project hasn't been awarded, as the parties are negotiating contract details.)

19. (SBU) It is unlikely that the Ministry will find common ground with Global or Raytheon. Minister Al-Maliki often cites budget pressures precluding him from resolving these issues. The Prime Minister is aware of the Global issue. He delegated the matter to Deputy Prime Minister Chalabi who, in turn, delegated it to the Ministry of Transportation for resolution.

110. REO HILLAH, REO BASRAH, REO MOSUL, REO KIRKUK, minimize considered.